

Stock exchange listings: New Zealand (NZX: AIR) / Australia (ASX: AIZ) / ADR (OTC: ANZLY)

MARKET ANNOUNCEMENT

28 January 2020

Air New Zealand provides details of Other Significant Items for the 2020 financial year

Air New Zealand is today providing an update on Other Significant Items that will be reflected in the airline's reported financial results for the 2020 financial year.

Details of Other Significant Items to be reported

The airline expects to report three components within Other Significant Items:

- A gain of approximately \$21 million resulting from the partial sale of airport slots at London's Heathrow Airport to an undisclosed party, following the 23 October 2019 announcement of the airline's withdrawal from the Los Angeles to London route. The remaining sale of airport slots is expected to be recognised in the airline's 2021 financial year for a value of approximately \$21 million, bringing the total value for the transaction to approximately \$42 million;
- Reorganisation costs in the range of \$20 million to \$25 million resulting from business transformation activities previously communicated by the airline in March and August 2019 as part of its two-year cost reduction programme, as well as expected costs associated with the withdrawal from the Los Angeles to London route;
- A non-cash accounting charge of approximately \$46 million resulting from the disestablishment of certain USD denominated debt as fair value hedges*.

Taking the effect of these items together, the airline expects to report a statutory charge of approximately \$45 million to \$50 million which will be reflected within Other Significant Items for the 2020 financial year, primarily driven by the non-cash impact of the disestablishment of fair value hedges. A summary of the expected reporting for the above items is provided in the table below:

Other Significant Items impact for the 2020 Financial Year		
	<i>Interim impact</i>	<i>Full year impact</i>
Gain on sale from airport slots	Will not be reflected in this period	Approximately \$21 million gain
Reorganisation costs	\$13 million charge	Approximately \$20 million to \$25 million charge
Disestablishment of fair value hedges	\$46 million non-cash charge	No change from 2020 Interim Financial Results

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Air New Zealand postal address: Private Bag 92007, Auckland, 1142, New Zealand

Investor Relations email: investor@airnz.co.nz

Investor website: www.airnewzealand.co.nz/investor

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Change in guidance definition resulting from Other Significant Items

These Other Significant Items represent events that are not reflective of the airline's underlying financial performance. Accordingly, Air New Zealand has amended its earnings guidance definition for the current financial year to make it clear that these items are not included in the earnings guidance numbers.

The airline is targeting earnings before Other Significant Items and taxation in the range of \$350 million to \$450 million. As discussed on 22 August 2019 when originally provided, the guidance range excluded the impact from the change in the accounting standard for leases (which the airline advised in its 2019 Annual Financial Results is expected to have an adverse impact on earnings of approximately \$10 million), and assumes an average jet fuel price for the year of US\$75 per barrel.

Guidance summary	
Amended guidance for 2020 financial year <i>(as disclosed on 28 January 2020)</i>	Based upon current market conditions and assuming an average jet fuel price of US\$75 per barrel, the airline is targeting earnings before <u>Other Significant Items and</u> taxation to be in the range of \$350 million to \$450 million. This outlook excludes the impact of the new accounting standard for leases (IFRS 16).
Previous guidance for 2020 financial year <i>(as disclosed on 22 August 2019)</i>	Based upon current market conditions and assuming an average jet fuel price of US\$75 per barrel, the airline is targeting earnings before taxation to be in the range of \$350 million to \$450 million. This outlook excludes the impact of the new accounting standard for leases.

As has been customary in recent years, the airline expects to provide earnings guidance to the market as part of the Interim Financial Result announcement on 27 February. This would take into account then current views on forward demand and bookings outlook as well as any expected impact from recent events, such as the coronavirus in China.

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*Background information on the disestablishment of fair value hedges

Following clarifications issued by the International Financial Reporting Interpretations Committee during the 2020 financial year, Air New Zealand has retrospectively disestablished certain fair value hedges, which will result in a non-cash adverse impact on earnings of \$46 million in the current financial year. Air New Zealand had historically designated certain USD denominated debt as fair value hedges of underlying USD aircraft values for the purpose of mitigating earnings volatility related to changes in foreign exchange.

This will be accounted for within Other Significant Items in the airline's 2020 interim financial results. The debt instruments previously designated in the fair value hedge have been re-designated in new hedge relationships in accordance with Air New Zealand's Group Treasury policy.

For investor relations questions, please contact:

Leila Peters

GM of Investor Relations & Financial Planning

leila.peters@airnz.co.nz

+64 21 743 057

or

Kim Cootes

Manager, Investor Relations

kim.cootes@airnz.co.nz

+64 27 297 0244

Ends.